



# **FACT REPORT:**

## The Economic Impact of Free Conference Calling Services

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# Executive Summary<sup>1</sup>

“Fact Report: The Economic Impact of Free Conference Calling Services” is the first comprehensive study of the pricing, business models, and policy implications of “free” conferencing services undertaken by economists familiar with the telecommunications industry. It was researched and compiled in an effort to evaluate the accuracy of the claims that the nation’s long-distance carrier oligopoly have been making in courts and to policy makers regarding the negative effects of these services.

Despite claims to the contrary, this report concludes that long-distance carriers (also known as “Interexchange Carriers” or “IXCs”) are, in fact, generating profits from calls delivered to free conference calling services. The report further concludes that free calling services create positive benefits for IXCs as the existence of free conferencing services encourages more consumers to procure unlimited long-distance plans, which, on average, are profitable for the IXCs. The report further concludes, therefore, that rather than having a legitimate basis for concerns about access costs associated with free calling services, IXCs are, in fact, seeking to eliminate competition for their own conference calling services, many of which have been forced to reduce prices in order to remain competitive with the relatively new, and innovative services offered by emerging competitors.

This report also examines the Federal Communications Commission’s (FCC) policy rationale for the rural Competitive Local Exchange Carrier (CLEC) exemption. The report concludes that the rural CLEC exemption remains as valid today as it ever was and that free conference calling services actually serve to meet, rather than undermine, the Commission’s stated objectives. In fact, as large Incumbent Local Exchange Carriers (ILECs) (the largest of which are also the largest IXCs) are abandoning and selling off their rural service areas, rural CLECs must have other profit centers in order to be able to provide more technologically-advanced services to their traditional customers, and to be able to create and maintain economic and employment opportunities in these underserved areas. Free conference services offer the rural CLECs this important diversification opportunity. And, perhaps

the least served communities in the nation are those on American Indian Reservations, where many have formed CLECs to offer modern telecommunications services to their residents, thus acquiring socioeconomic benefits including improvements in employment, education, medical and public safety.



Free conference calling services have added a new dimension to the long-distance telecommunications marketplace in the United States and abroad. Accompanying the introduction of these services, there are a variety of business and public policy issues that have been raised here in the United States. These issues include access service charges imposed on IXC's, profits made or lost by IXC's and LEC's, fees paid by LEC's to free conference calling companies, benefits accruing to the general public through the ability to efficiently collaborate and engage in business, political and religious activities, and the resulting positive by-products: an expansion in economic growth; an increase in employment growth; and an increase in the availability of services such as broadband in these often underserved areas. This report will examine and evaluate the accuracy of the economic and policy attacks propagated by dominant IXC's that have been leveled at the free conference calling industry.

To date, most of the debate has focused on the FCC's access charge regime and the charges levied by LEC's on IXC's for originating and terminating long-distance telecommunications services. Under the current regulatory framework in the United States, the costs for these access charges are necessarily imputed into the costs that IXC's incur while enabling their long-distance customers to make long-distance calls. Accordingly, the law requires IXC's to bill and collect from their customers and then pay LEC's for the use of their network in transiting these long-distance calls. This report will examine this regulatory framework and the economics of LEC's billing IXC's for terminating access charges associated with free conference calling services.

The report also includes a discussion of the economic structure of the long-distance telecommunication market and the implications of that structure on natural (market-based) pricing and level of telecommunications service. This is followed by data and analysis that demonstrates that long-distance calls to free conferencing services are profitable for the IXC's, despite their claims to the contrary.

The IXC's' misrepresentation of fact regarding the profitability of calls made to free conference calling services necessarily implies that there is another motive behind the IXC's' attacks on free conference calling services. This report searches for and uncovers the IXC's' hidden motive,

which stems from the fact that many IXCs have had to reduce the price of their own conference calling services and have had to develop and introduce new services in response to new entrants in the market. Generally, this is exactly how the competitive market should work, new entrants launch new, more innovative services in what has been an entrenched market dominated by a few large companies, thereby spurring competition and driving down prices. In the end consumers win, so long as dominant firms are not able to use their market power along with regulatory and public policy mechanisms to eliminate the emerging competitors. Finally, what is often left unsaid by those who attack the new entrants is that they actually fulfill the FCC's underlying public policy goal of providing advanced services to rural America, while simultaneously stimulating competition and creating employment opportunities.

## **II. Free Conference Calling Companies**

### **A. The Role of Free Conferencing Companies**

Free conferencing companies are independent service providers that procure local exchange services from LECs. By subscribing to the local exchange services offered by the LECs, free conferencing companies allow competitive carriers to diversify their revenue streams and remain viable in the face of technological advancements and changing consumer preferences that have resulted in decreased demand for traditional wire-line services.<sup>2</sup> Free conferencing companies have been the necessary catalyst for these rural LECs to build human capital, re-invest capital in operations, and provide more and better service to local customers. Farmers Telephone Company, of Riceville, Iowa (“Omnitel”) is an example of a LEC that sold local exchange services to a free conferencing company from 2005 until 2007. Because of changing consumer preferences, Omnitel did not have much of a future before working with a free conferencing operation.<sup>3</sup> Today Omnitel is able to offer its rural customers a wide array of services, including high-speed Internet, toll-free numbers, a variety of long-distance plans, teleconferencing, cable TV, wireless and more.<sup>4</sup> Similar outcomes are possible for other rural LECs and are completely consistent with the FCC’s vision for vibrant competition in rural America.

#### **1. Broadband Expansion on American Indian Reservations**

Like rural CLECs, American Indian tribes have also become increasingly interested in supporting the provision of free conferencing services as a way to diversify income streams and provide their nations with economic development opportunities, including the deployment of broadband and other modern telecommunication services. These American Indian reservations are located in some of the most remote areas, and until now, business models that respected the tribe’s autonomy, while effectively providing those who reside in these remote areas with modern telecommunications and Internet service, have been

<sup>2</sup> “Telecom Services,” Morgan Stanley Research Report, Aug. 31, 2009, p.5.

<sup>3</sup> Searcey, Wall Street Journal, Oct. 4, 2007, p. A1.

<sup>4</sup> <http://www.omnitel.biz/>, and Yorkgitis, Edward A., Jr., Ex Parte Letter and Presentation on behalf of Omnitel Communications and Great Lakes Communications to the FCC, Feb. 15, 2008.

elusive. These failures have stemmed from a misunderstanding or lack of appreciation for the tribe's history and culture, excessive infrastructure costs, and lack of financial resources necessary to secure "luxuries" such as broadband Internet access. The result, as FCC Commissioner Michael Copps has noted, is a level of broadband access on American Indian reservations that is "shockingly low" and "a national disgrace."<sup>5</sup> Free conferencing services are already helping to turn this tide.

American Indian tribes are now discovering that they can establish their own telephone companies and sell local exchange service to free conferencing companies and applications to the Federal Government. In doing so, Native American tribes can finance their own infrastructure build-out and Internet libraries, and provide telecommunications and broadband services to all the Reservation residents, subsidized by tribe owned businesses and not by the United States Government. They have discovered that their ability to operate viable telecommunications businesses provide them with the opportunity for economic growth and independence.

By way of example, the Crow Creek Indian Reservation was one of the most economically disadvantaged places to live within the United States borders. The Crow Creek Indians now have their own phone company, Native American Telecom – Crow Creek, that provides for broadband services, modern telecommunications services, and an Internet library. They now have an impetus for economic expansion and personal pride. Jobs are being created, and a source of income for the Tribe has been created that will be used for further economic growth and the general welfare of their people. Without the ability to provide access service to other companies and realize the revenues, the tribe-owned telephone company business model would not be viable.

This business model is now being adopted in other remote locations such as the Pine Ridge Indian Reservation, and many others have shown interest. This example helps to highlight the fact that the application of the rural exemption for other rural locations is a valuable stimulus to economic growth in rural areas, true to the FCC's intention.

## B. Access Charges, Long-distance Plans and Conference Call Pricing –Tracking the Cash Flow

This section outlines the costs and pricing structures involved in the initiation of a telephone call to a conference call bridge. It includes the pricing of unlimited long-distance calling plans, because it is this aspect of conference calling that is most often misunderstood and misinterpreted by those who oppose free conference calling.

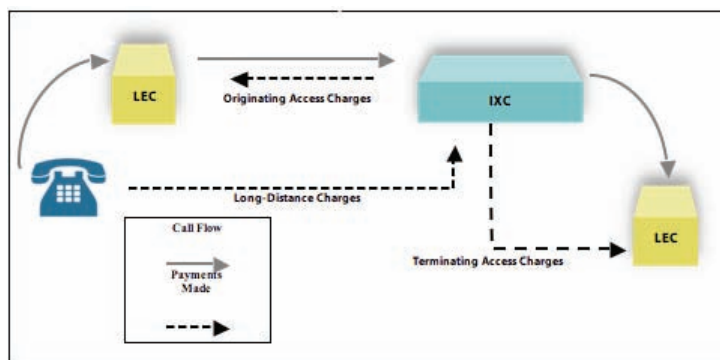


Figure 1: Free Conference Calling Traffic and Cash Flow Diagram

Conference call companies provide free conference calling services to consumers by entering into marketing agreements with the LECs whereby the conference call provider receives a marketing fee in return for generating conference call traffic. The free conferencing service model, shown in Figure 1, graphically illustrates the typical cash flow scenario: (1) a call participant, who has already purchased a long-distance calling plan from an IXC, dials a long-distance number; (2) the IXC pays the call participant's originating LEC an originating access service payment for each minute of the call; (3) the IXC pays the terminating LEC that provides local exchange service to the conference call provider a per minute terminating access fee;<sup>6</sup> and (4) the Host, terminating, LEC pays the conference call provider a marketing fee in a manner determined by contract between the terminating LEC and the conference call provider. This cash flow scenario is repeated for each call participant under the free conferencing service model.

IXCs have intimated to law makers that it is the IXCs that bear the burden of subsidizing the free conferencing service industry. However, consumers pay for their conferencing services themselves each month when they pay their long-distance bills to their carriers of choice. Whether the consumers call their aunt in rural Iowa or a conferencing bridge in rural Iowa, there are access charges that are incurred for the use of the

6

For clarity and ease of reference, the LEC that provides local exchange service to the conference call provider will be referred to as the "Host LEC."

various LEC networks utilized in completing the calls. The IXC that the customers pay each month for long-distance service are legally obligated to pay for the transport and termination of those calls, having already agreed to collect the fees for the calls from the customers in accordance with the customers' chosen long-distance plans.

The model in Figure 1: is modified in situations where there is an intermediate carrier between the IXC and the terminating LEC. Such a carrier is known as a transport company or centralized equal access tandem/transport provider and serves to aggregate and route traffic between the IXCs and smaller LECs. Transport companies often charge a large mark-up, explaining some of the arguments made that rural locations are high-cost. By way of example, Google recently defended its practice of blocking certain access to certain rural areas for its Google Voice service by stating that it would have to pay between 12¢ and 39¢ per minute to these locations. Google contends that it blocks calls to these areas because they are cost prohibitive.<sup>7</sup> However, the LECs from which most of the free conferencing companies receive service, and where Google blocks calls, have tariffs that are only about 5¢.<sup>8</sup> The difference is the mark-up charged by the intermediate carrier. It is noteworthy that these intermediate carriers, and not the free conferencing companies, are the benefactors of these high transport fees. Recently, alternative intermediate carriers in these “high-cost” areas have sprung up to offer competition in these markets, transporting this same traffic at a rate of about 2¢ per minute, making the free conference calls affordable to the IXCs and other companies like Google, and negating the “high-cost” reason to block calls and/or use other methods of IXC self-help.<sup>9</sup>

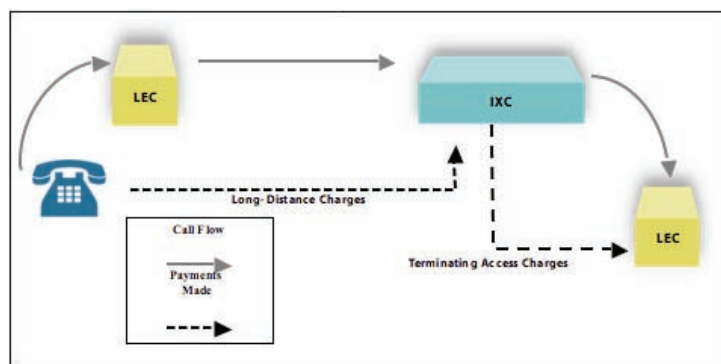


Figure 2: Modified Free Conference Calling Traffic and Cash Flow Diagram

7 Letter from Richard S. Whitt, Washington Telecom and Media Counsel, Google Inc., to Sharon Gillett, Chief, Wireline Competition Bureau, FCC, DA-09-2210 (Oct. 28, 2009).

8 Letter from David Erickson, President of Free Conferencing Corporation, to Ms. Marlene Dortch, Secretary FCC, Nov. 4, 2009, WC Dock Nos. 01-135 and 07-52.

9 For example see WideVoice Communications, Inc. <http://www.widevoice.com/services.html>

The traffic and cash flow diagram is also modified slightly if any of the call participants are also customers of an originating LEC that is owned by, or affiliated with, the customer's long-distance provider. In this instance, illustrated in Figure 2, the IXC would effectively retain the originating access charges collected from the customer.

Finally, it should be noted that another type of traffic and cash flow analysis results if the caller initiates its call to a conference bridge using a wireless phone or VoIP service. The imposition of access charges on these calls remains an unsettled issue on the regulatory landscape and is largely beyond the scope of this analysis.<sup>10</sup> EXHIBIT A, at the end of this report, provides a summary of the various attributes of the different conference calling models.

### **C. Hosted vs. Free Conference Calling – Comparing the Economic Alternatives**

The pricing of access charges, long-distance calling plans and conference calling services are, in some ways, intertwined and the interplay between these various services needs to be explained fully, fairly, and completely. A primary objective of this report, therefore, is to explain and analyze the interplay, and the often complex and confusing characteristics of these telecommunication services.

There are generally three types of business arrangements for the provisioning of conference calling services in the United States: (1) large and often dominant IXCs that generally provide conference calling services in partnership with one or more nationwide conference call service companies (e.g., Genesys, a partner of Qwest), and that have traditionally utilized a host-pay system whereby all call participants dial a toll-free (1-8XX) number to access the call; (2) Incumbent or Competitive LECs that own their own conference bridges and may provide a combination of host-pay and free conferencing services; and (3) small independent conference call companies that secure local exchange service from ILECs, CLECs, and/or rural CLECs that generally, though not exclusively, provide a free conferencing service where each caller dials a long-distance number and incurs long-distance charges to participate in the conference call.

<sup>10</sup> This is not to suggest that wireless and Internet-Protocol phone service is not a significant component of the market, but rather that the dispute regarding payment of access charges for conference calling services is predominantly discussed within the context of landlines. These dynamics are likely to continue to change as AT&T and others argue that the FCC should consider eliminating the Plain Old Telephone System (POTS) in favor of an Internet Protocol based system. Benison, Brian, Ex Parte Letter and Presentation from AT&T to the FCC, Aug. 5, 2008.

Despite the differences in business models, an important attribute unifies this complex set of business arrangements. That is, with each conference calling model, a long-distance charge, which necessarily includes originating and terminating access charges for the use of the LECs' network, is assessed. These originating and terminating access charges apply to all conference calls. For calls made to 1-8XX numbers, the access charges for all participants will be paid for by the call's host. For free conferencing services, each participant will pay its own long-distance charge in order to access the call (i.e., each individual caller pays for the long-distance call individually as part of his/her monthly local and long-distance telephone bill).

## **2. Free Conferencing Services Provide Consumers with More Choices**

On the other hand, the free conferencing services are unique in providing a greater level of consumer choice. By way of example, those consumers who choose to use the free conferencing services have the option of: (1) dialing into a conference call bridge using a direct-dial phone number and their existing long-distance plan; (2) utilizing a 10-10 XXX "dial-around" number to select a specific IXC while dialing; (3) utilizing a pre-paid long-distance calling card; (4) utilizing a wireless device (e.g., a cell phone); or (5) utilizing a Voice-Over-Internet Protocol (VoIP) service. These free conferencing services do not require a host to pay all of the costs but rather allow each participant to pay their own share of the call's cost. Hosted conference calls, on the other hand, are more expensive to the host and can be cost-prohibitive. This is an important distinction, because free conferencing services provide an additional economic alternative for would-be conference hosts, an alternative that is an efficient, cost-effective method of mass communication, the absence of which would leave many with no viable alternative at all.



### III. **The Effect of Regulatory Pricing Decisions**

#### A. **The Current Policy Issues**

Stated succinctly, the current policy issue that has been raised by IXC's before the FCC, various state utility commissions, and the United States Congress, is whether IXC's should be required to pay tariffed terminating access charges to rural LECs that pay marketing fees to their customers that market, promote, and provide free conferencing services. Major IXC's, such as AT&T, Qwest Communications, Sprint, and Verizon, which are often vertically integrated with LECs and offer their own competitive conferencing services, have repeatedly claimed that terminating rural CLECs are charging too much for termination, and/or are "pumping" excessive volumes of traffic through these rural areas in order to take undue advantage of the existing regulatory framework that permits rural CLECs to operate under and receive higher tariffed rates than metro locations. It is important to note that this is a result that the FCC contemplated and ultimately decided is acceptable and even desirable.<sup>11, 12</sup>

#### B. **Pricing Discretion is Under the Complete Control of the IXC's**

As this report explains, the rural tariff rates present no profitability problem for IXC's resulting from long-distance calls to free conference calling services. To the extent that IXC's may not make a profit on any given customer or any particular call as a result of the IXC's' unlimited long-distance plans, that is not an issue for the FCC or Congress but is a direct effect of the IXC's' own business plans and pricing, a matter within their complete discretion. A problem of their own making, the IXC's cannot be heard to complain when they have knowingly and intentionally adopted a business model whereby they sell unlimited long-distance plans for a fixed monthly charge, without regard to the volume or destination of the telephone calls placed by consumers.

<sup>11</sup> In the case of Free Conferencing Corporation, the terminating access charges levied by the LECs are all less than or equal to the higher National Exchange Carrier Association's rate allowed under the FCC's "rural exemption." See also: In the Matter of Access Charge Reform, Reform of Access Charges Imposed by Competitive Local Exchange Carriers, CC Docket No. 96-262, Seventh Report and Order and Further Notice of Proposed Rulemaking, 16 FCC Rcd 9923 (2001), ¶65-73.

<sup>12</sup> AT&T admits that the CLECs they are challenging are charging around the NECA band 8 rates. See Benison, Brian, Ex Parte Letter and Presentation from AT&T to the FCC, Dec 3, 2009.

## C.

### Shifting of Resources

Under any regulatory pricing plan, the final prices are often arbitrary and subject to compromise and change over time. The regulator must weigh the costs and benefits of setting the price at any given level. At current levels, all service providers are profitable. Nevertheless, some have suggested, AT&T for instance, that the FCC should lower rural CLEC access rates, at least for the purpose of conference calling services.

A change in access rates will have little practical effect on the demand for free conference call services. As long as the new rate is sufficient to keep all current service providers profitable (although at different levels), and thus in business, then the only economic effect would be a transfer of wealth from one service provider to another. In this instance, the shift would transfer wealth from the smaller, less competitive companies to the larger dominant ones (the IXC's). This will produce negative results on future competition and product development. Therefore, the appropriate line of inquiry is a policy one: does the policy analysis underlying the rural exemption remain valid and does the FCC intend to continue to ensure that rural America has ubiquitous access to wire-line and emerging services (e.g., broadband)?

The FCC's original stated intent is to stimulate the businesses of the rural LECs (both ILECS and CLECs) to invest in their markets and provide better and possibly cheaper and more imaginative and innovative services to customers, because these areas are generally underserved by the major and dominant nationwide companies. This ideally translates into more and better jobs, lower local telephone bills, and improved local and national telecommunications services. This is precisely what the rural LECs that contract for marketing services with free conferencing companies are doing. In general, they serve a relatively small number of customers and offer full local telephone service, VoIP, high-speed Internet, digital TV, and long-distance telecommunications.

## D.

### The Effect of Unlimited Calling Plans

The strategic business issue concerning unlimited local and long-distance calling plans will now be explained and analyzed in more detail in order to understand the effects these plans are having on conference calling services. The overall profitability of long-distance services is also

analyzed in detail (see, Section IV). This analysis concludes that because unlimited long-distance plans must be analyzed based on average costs and average revenue, the plans yield significant profits for IXCS, even when consumers utilize a relatively large quantity of free conference calling services.

## **E. Average Cost Should Not Be Confused With Marginal Cost**

The IXCs' tendency to conflate marginal and average cost is not trivial, and has, in fact, resulted in significant misperceptions regarding the free conference calling service industry. Indeed, ILECs are required to base their prices and profit calculations on average costs, rather than marginal costs, specifically because it is understood that less profitable service offerings, generally in rural America, must be subsidized by earnings from the more profitable densely populated areas (where call volume is high and costs low) in order to foster the FCC's mandate of ubiquitous services.<sup>15</sup> This is a critical business and policy matter as large ILECs are actively divesting themselves of their rural properties in an effort to lower their average costs and then concentrate their business strategies on the high-density, high-volume, low-cost, high-profit areas. Indeed, this exact scenario was one of the underpinnings that resulted in the FCC's creation of the rural exemption for CLECs.

The introduction of unlimited long-distance calling plans, successfully launched by the ILEC-IXC combinations, has become a major aspect of conference calling that is frequently misunderstood and misinterpreted by those who oppose free conference calling. With these increasingly popular unlimited plans, where both local and long-distance services are bundled into a fixed monthly rate, the IXCs and LECs/IXCs (e.g., AT&T and Verizon) may lose money on any given marginal call that is placed by one of their customers to any long-distance number. Indeed, this is true of any fixed price service, where those who choose to use more of the "unlimited" services gain, but this does not mean that free conference calling has made IXCs, generally, or unlimited long-distance plans, specifically, unprofitable. In other words, it is the average profit per user multiplied by the number of users that determines the IXCs' profit,

<sup>15</sup> In the Matter of Access Charge Reform, Reform of Access Charges Imposed by Competitive Local Exchange Carriers, CC Docket No. 96-262, Seventh Report and Order and Further Notice of Proposed Rule making, FCC Rcd 9923 (2001).

<sup>16</sup> In the letter from David Erickson to Marlene Dortch, Secretary of the FCC concerning the response to Google, dated November 4, 2009, Mr. Erickson states that alternative rates are frequently available below the tariffed rates. See Erickson, David, Ex Parte Letter from Free Conferencing Corporation to the FCC, Nov. 4, 2009.

and free conference calling services may have the tendency to impact both of these factors differently.

It is important to note that the LECs providing local exchange service to free conferencing companies, on average, charge the same or less for terminating access than most rural ILECs.<sup>16</sup> Indeed, many of the LECs that work with free conferencing companies have commercial agreements, with some of the same IXC that have been so vocal in the debate, at rates substantially lower than the tariff rates for those areas. The implication raised by the adoption of these commercial agreements is that natural market forces are able to self-regulate the industry, and the need for additional regulation by the FCC or Congress is unnecessary. If an IXC claims that it is losing money due to terminating access charges, then it can only be due to a faulty analysis used to determine the pricing of unlimited calling plans. Notably, despite continued claims that free conferencing services are ruining the profitability of unlimited long-distance plans, the IXCs have continuously refused to produce data to backup these claims. And, anecdotal evidence would suggest that the contrary is true. Indeed, AT&T, Verizon, Sprint and Qwest, the four dominant IXCs, continue to aggressively promote their unlimited long-distance plans, which are increasingly popular with consumers.<sup>17</sup> The profitability related to the use of unlimited calling plans is discussed in detail in Section IV.

<sup>16</sup> In the letter from David Erickson to Marlene Dortch, Secretary of the FCC concerning the response to Google, dated November 4, 2009, Mr. Erickson states that alternative rates are frequently available below the tariffed rates. See Erickson, David, Ex Parte Letter from Free Conferencing Corporation to the FCC, Nov. 4, 2009.

<sup>17</sup> Unlimited plans come with many of AT&T's U-Verse plans, Verizon's FIOS, and virtually all cell phone plans. See, e.g., Goldstein, Phil, AT&T Follows Verizon, Offers Cheaper Unlimited Plans (available at: <http://www.fiercewireless.com/story/t-follows-verizon-offers-new-unlimited-plans/2010-01-15>) (last accessed March 1, 2010).

## IV. Pricing Models for Long-distance Calls

### A. Marginal versus Average Cost

There has been some confusion between average cost and marginal cost in arguments and disputes before the FCC, the Courts, and in Congress.<sup>18</sup> AT&T in particular has made a claim that the marginal costs of switching an additional call for rural CLECs is close to \$0, and therefore a rural exemption to charge higher tariffs is unnecessary.<sup>19</sup> Marginal costs are irrelevant, however.

AT&T's conclusion that marginal cost is close to zero assumes that there is unlimited capacity in each switch. If indeed the number of calls is growing, as the evidence suggests, then LECs providing local exchange service to conference call providers must therefore continue to upgrade and improve the quality of their switching equipment in order to meet the increased demand. This has been the case for many LECs. For example, Omnitel used its profits from offering free services, including free conferencing, to upgrade and improve services for all of its rural customers.<sup>20</sup>

To further illustrate the critical relationship of marginal cost to average cost, consider a hypothetical switch that costs \$1,000,000. As long as the switch is below capacity, it has zero marginal cost. In other words, the LEC would incur no additional cost to add an additional call to the switch. Further assume that the switch can handle 100,000 calls at any given time. As the call volume increases over time, the short-run average cost falls as the volume increases. Now suppose that the call volume is, on average, 99,000 calls at any given time. In this scenario, the marginal and average cost per call is extremely low, because the switch is near capacity. However, as soon as call volumes get at or near the 100,000 call volume limit, the LEC will be required to buy an additional switch in order to accept the next call. Assuming this additional switch also costs \$1,000,000, and thus the marginal cost for accepting that next call will be \$1,000,000. With the purchase of the additional switch completed, however, the marginal cost per call will return to near \$0.00, while the short-run average cost for all calls will remain somewhat high, decreasing

<sup>18</sup> FCC Notice of Proposed Rulemaking, Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135, 14 (released Oct. 2, 2007), ¶ 14.

<sup>19</sup> Benison, Brian, Ex Parte Letter and Presentation from AT&T to the FCC, Dec. 3, 2009.

<sup>20</sup> <http://www.omnitel.biz/>

again as the volume of traffic increases, until such time as both switches are near capacity and the purchase of a third switch is required. If this cost is averaged over a longer period of time, it is possible to measure the company's long-run average cost, which is certainly not \$0.00, as the IXC's imply.

Arguments that the cost of switching additional calls for LECs is equal to \$0.00 are clearly and obviously a marginal cost argument. Since the switching equipment is expensive, the long-run average cost is not falling quickly with each new call. Indeed, the same arguments can be applied to the IXC's. IXC's have an expensive network of switches, transmission lines, and transmitters. They too have (close to) zero marginal cost for each additional call. Would they argue, however, that there is no additional cost for a call, such that their rates to consumers should be approaching zero, given the significant volume of calls that they carry on their network? If this logic is followed by regulators, one or more interested parties would suggest that the IXC's should be required to sell their services to consumers for a fraction of a cent per minute if they have almost zero marginal cost. Clearly, this argument is flawed, and thus has no relevance to the issue of free conferencing services. How then can the IXC's justify their demand that rural LECs sell access to their networks for a fraction of a cent per minute merely because the volume of calls to these networks has increased?

If the long-distance callers do not have an unlimited long-distance plan but rather are paying a per-minute rate, then even on a marginal cost basis the IXC will make a profit for each and every call. It is known that these calls make a profit because IXC's pay access charges for every call, not just those that connect to free services, so the IXC's must price long-distance services to make a profit. More evidence of their rates and profitability is given below.

If, on the other hand, the caller uses an unlimited calling plan to connect to a free conferencing service, then the IXC will incur the same marginal cost (i.e., the terminating access charge), but will have no marginal revenue (i.e., increased revenue from its customer). This does not mean, however, that there is no profit, since the profit is determined by average cost and average revenue. Accordingly, if there is a problem with profitability associated with free conference calls, it has nothing to do with the cost, which remains constant, but rather the problem is on the revenue side, and therefore in the pricing of the long-distance plans. It is also true that not only are the IXC's earning a profit on average, but their profits have actually been growing since free conference calling and unlimited long-distance plans have become popular with consumers.

Furthermore, terminating access charges paid by the IXC to the Host LEC participating in free conferencing services plays only a minor role in the overall business operations of AT&T, Verizon, Sprint and Qwest. In principle, any LEC could purchase a conferencing bridge and thereby increase the volume of minutes and thus costs to the IXCs. This only becomes a “problem” for the IXC if the IXC charges a flat monthly rate for unlimited long-distance and local calling. Otherwise, if the IXC charged its customer per minute of use, the business incentives would immediately change and the IXC would have every incentive to encourage its customer to make lengthy calls to the conference calling bridge.

Nevertheless, the IXCs might still complain, since profits would be larger if they paid lower access charges, but the same is true of any access costs. The same is also true if IXCs reduced labor costs by withholding pay from employees or reduced infrastructure cost by refusing to pay vendors that provide switches or other infrastructure. These activities would be unlawful methods of increasing profits, just as the IXCs’ refusal to pay switched access charges is an unlawful method by which the IXCs increase profits and eradicate competition.<sup>21</sup> Despite their claims, the IXCs are not “losing” money. In fact the IXCs are actually experiencing increased profits as these new services bring new unlimited long-distance customers to the IXCs, thereby enlarging the overall market, to use, and pay for, more IXC services.

## **B. Profit Maximizing Pricing by IXCs**

The IXCs offer services with a number of pricing plans and various types of bundling with other products. Furthermore, this happens at both the residential and commercial level. Though individuals generally pay the same price for any given bundle, larger businesses buy bulk minutes at a discount, more like a wholesale rate, and are also offered bundled services. Therefore rates vary depending on minutes bought and by the ability of a consumer to negotiate lower rates. For an IXC to be profitable, average prices overall must be above the IXC’s long-run average costs.

## **1. Why do IXC's Choose Different Pricing Philosophies for Voice and Data?**

An example of how the IXC's pricing problem is not unique is that AT&T is reconsidering its pricing for unlimited data on cell phones. AT&T has discovered that 40% of its data traffic is coming from 3% of AT&T Mobility's Smartphone users.<sup>22</sup> According to AT&T's use of the term, one might expect the company to accuse its customers of "traffic pumping." AT&T is considering tiered pricing plans that will resemble the traditional voice plans, that were in place before the proliferation of unlimited calling plans, where a customer pays for a certain amount of minutes and then pays a per minute rate once that limit is exceeded.<sup>23</sup> AT&T and other IXC's could similarly modify their unlimited long distance plans to charge a premium to those long-distance customers that, in the IXC's opinion, consume excessive quantities of unlimited long-distance services.

## **2. Fixed Pricing for Unlimited Service has a Preconceived Business Purpose**

A fixed price for unlimited service is not an unusual situation for many businesses. The following analogy may shed further light on the fallacy of the IXC's arguments. Consider, for example, tire stores, which frequently offer free balancing and rotation for the life of the tires if you buy a complete set of four tires for your car. Does that mean that the tire store loses money each time a customer comes in to balance and rotate the tires? What if the stores are owned independently and franchise the tires from a major national supplier?

Further assume that tires must sell for the same price everywhere, but the national supplier must compensate stores with higher rent and labor costs to help them cover the costs associated with this service. What if the customer chooses to balance and rotate at the downtown store instead of the suburban store? Does that mean the customer is ruining the profitability of the national chain? Surely the chain will account for this in their pricing model and charge sufficiently for the original tires to cover their costs.

What if the downtown tire store only sells tires, but a small company contracts to do the balance and rotation services at its

<sup>22</sup> Wortham, Jenna, "AT&T to Urge Customers to Use Less Wireless Data" New York Times, Dec 10, 2009. (last accessed Dec. 10, 2009.)

<sup>23</sup> Ibid



neighboring downtown location? The supplier may prefer customers go to the suburban store since providing service through the contractor costs more, but does that mean they are losing money? Can the tire store simply refuse to pay the contractor because too many customers use the contractor's services?

How many new customers will the tire store draw in because it offers this balance and rotation service as part of the bundle that consumers buy with their new tires? This draws more revenue to the store but also to the chain by attracting more customers away from competing tire brands – and they are likely to be loyal, satisfied customers that purchase other products and services from the tire store. If the supplier felt the services were being abused, they could limit the number of free balances and rotations or impose a small incremental service fee on the balances and rotations that are completed in the downtown store. Just like the tire store, the major IXC's have tremendous flexibility to offer consumers a variety of plans with varying terms. For example, per minute long-distance rate plans from the major IXC's range between \$5.00 flat fee per month, plus 5¢ a minute at AT&T, to \$1.99 flat fee per month, plus 15¢ a minute at Qwest. Verizon's rates are \$6.00 per month, 5¢ per minute, with a \$9.99 minimum per month. Sprint no longer advertises residential long-distance (anyone who is interested must call an 800 number to ask for pricing information), but, according to SaveOnPhone.com, Sprint is charging 5¢ per minute plus \$8.95 per month and MCI (now a part of Verizon) offers 4¢ per minute plus \$6.99 per month.<sup>24</sup>

### **3. IXC's Have the Market Power to Implement Various Pricing Plans**

Some companies have also started introducing hybrid plans, similar to wireless plans, where consumers pay a flat fee for a certain volume of minutes and then pay for each minute by which they exceed the predetermined volume. MCI, for example, offers 200 minutes of long-distance for \$12.99 plus 5¢ per minute for minutes used over the initial 200.

Each IXC also offers “unlimited” plans as well. By way of example, Qwest and AT&T both advertise \$25 per month for unlimited plans. Similarly, the major IXC's offer bundled services tied to various home services offered by their captive ILECs. With bundled services, the

24 Rate Comparison Chart, <http://www.saveonphone.com/chart.aspx>, Public websites for AT&T, Verizon, Sprint and Qwest. <http://www.att.com/gen/landing-p.s?pid=10933>, <https://www22.verizon.com/Residential/HomePhone/LocalandLongDistance/LocaandLongDistance.htm>, <http://ion.sprint.com>, and [http://www.qwest.com/residential/ld/index\\_oor.html](http://www.qwest.com/residential/ld/index_oor.html), [http://consumer.mci.com/res\\_long\\_distance/index.html](http://consumer.mci.com/res_long_distance/index.html).

price of each additional service, like unlimited long-distance, is even less depending on what else a customer buys. This is another example of averaging used in pricing models.<sup>25</sup>

Exhibit B is an example of an actual AT&T customer phone bill showing that AT&T has chosen to charge its customer 30¢ per minute, a surcharge of 24¢ on average, to use a free conferencing service.<sup>26</sup>

## 4. Unlimited Calling Plans Lure Consumers

Another inquiry that is relevant to the profitability of IXC's is the number of customers with per minute long-distance bills (averaging, let's say, between \$10 – \$30/month, but varying across months) who switched to unlimited plans (for say \$25 per month) just to substitute a higher expected, but predictable bill, in exchange for eliminating the risk that they might have an occasional extremely high monthly bill that results in “sticker shock.” In these circumstances, the major IXC's are increasing profits by having people switch from per minute plans to monthly plans.<sup>27</sup>

It is likely that many customers who were on per-minute plans switched to unlimited plans because they saw the availability of free conferencing, and other free telecommunications services and wanted to have worry-free access to them. Granted, many of these customers may not use the free services, or use them to a lesser degree, if they had to pay per minute rates, but that does not mean that the IXC's are negatively affected merely because a consumer wants to use some free services in conjunction with their unlimited long-distance plans. In fact, the record demonstrates that customers use only 21 minutes of free conferencing services per month, on average.<sup>28</sup> That amounts to \$1.05 per month (21 minutes X 5¢) in the most expensive locations where free conferencing service providers are operating. Consider, however, that actual rates earned by the LEC's that contract with free conferencing service providers are estimated to be closer to one third of that tariff rate, or 1.5¢ a minute, due to commercial agreements between IXC's and LEC's. Under this scenario, the average cost per conference call subscriber is 31.5¢ (21 minutes X 1.5¢) per month.

25 The “price” that is produced by the necessary average cost method is a form of hybrid, or aggregate, pricing. Aggregate pricing can also create problems for the IXC's because it tends to skew economic incentives and natural market forces, as we have noted with the “unlimited” pricing model that desensitizes consumers to the actual costs of using the service and may even encourage additional usage that serves to drive up the average costs to the IXC's.

26 The difference of 6¢ per minute is the average price per minute for residential long-distance, See Figure 3.

27 There is evidence that the IXC's are using such bundling as their major marketing strategy. See AT&T Annual Report, 2008, p. 37.

28 Buntrock, Ross, Ex Parte Letter and Presentation to the FCC by Free Conferencing Corporation, Oct. 16, 2009.

## 5. Why are the IXC's Complaining?

Taking another look at this, Figure 3 demonstrates, according to FCC and Bureau of Labor Statistics (BLS) data, that the average revenue per minute for long-distance telephone calls is currently about 7¢, plus or minus 1¢.<sup>29,30</sup> This suggests that the IXCs are earning between 4¢ and 6½¢ per minute on every call made to a free conferencing service, or 24¢ per minute in the case of the customer in Exhibit B. Even at 3¢ per minute for access charges, which is at the high end, and accepting the lowest possible estimate for profit, the IXCs are making 4¢ per minute on conference traffic, which is an extremely generous profit on these calls.

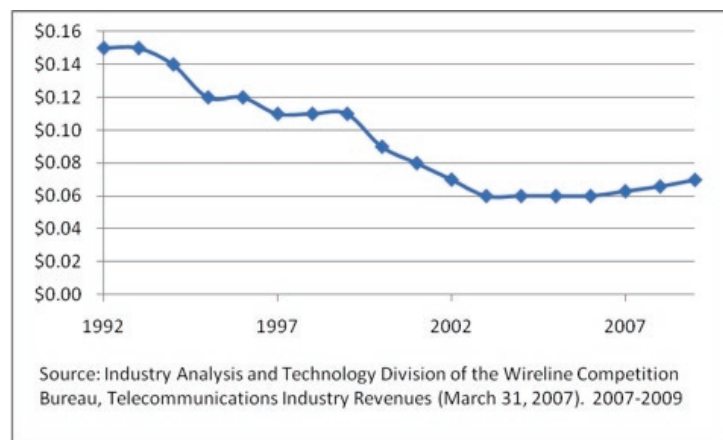


Figure 3: Average Revenue per Minute for Residential Interstate Toll Calls

This, then, begs the question: Why are the IXCs fighting against the free conferencing companies? Is the real intention to eliminate competition and then take advantage of a business niche created by the free conferencing companies? One theme becomes clear. The claims about “losing money” on calls made to free conferences are bogus. Of course the IXCs would prefer lower access charges, but then they would like lower taxes and lower labor costs as well. In short, this “losing money” argument is merely another way for these powerful economic interests, the IXCs, to get a larger share of the market.

<sup>29</sup> Industry Analysis and Technology Division of the Wireline Competition Bureau, Telecommunications Industry Revenues (Mar. 31, 2007).

<sup>30</sup> Consumer Price Index, Bureau of Labor Statistics, <http://www.bls.gov/cpi/#data>.

More evidence can be derived from the rates of return for the IXC's. Figure 4 shows that the rate of return for the interstate services business has been increasing to high levels since at least 2003.<sup>31</sup> This fact is supported by the 10Qs filed with the Securities and Exchange Commission (SEC) that also point out higher profit margins with unlimited plans. In fact, the complaints from the IXC's about "traffic pumping" that are the subject of several ongoing legal battles have given the IXC's cover to raise rates, because they continually claim – and complain – to the FCC, the state regulators, and to Congress that their asserted lack of profits compel them to raise prices. Since, in fact, there is no evidence to support a lack of profit, this argument is baseless, as demonstrated by the increasing rates of return for the major IXC's.

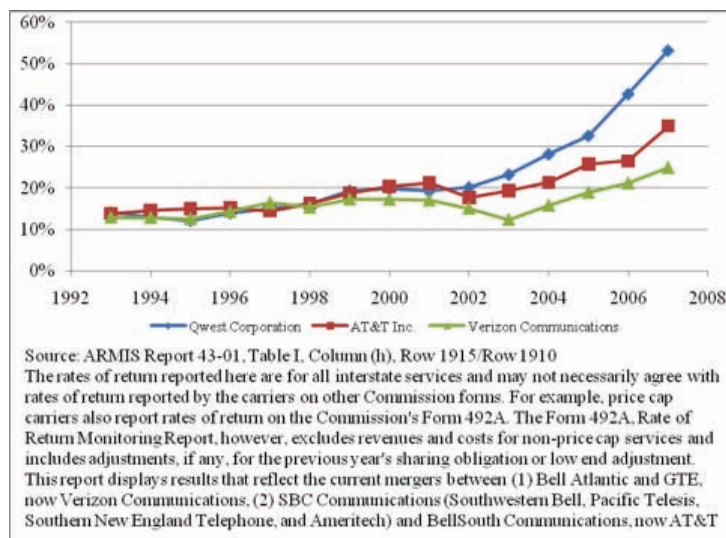


Figure 4: Holding Company Interstate Rates of Return

The claims that the IXC's are "losing money" on long-distance are false. It is raised merely as an argument designed to distract regulators from the IXC's efforts to quash competition stemming from new entrants to the conference calling market.

## **V. Competition from New Market Entrants**

### **A. New Competitors and New Markets**

Conspicuously absent in the complaints filed by the IXC's, is the fact that services offered by free conferencing companies are effectively competing with services offered by the IXC's. Until 2005 the only teleconferencing service offered by the big telecoms was a host-pay toll-free dial-in service. This service was prohibitively expensive for many consumers that desired to use conference calls to collaborate on entrepreneurial ventures (i.e., small business), for philanthropic or religious purposes (i.e., nonprofits), or to conduct the people's business (i.e., government). Free calling services were pioneered as a response to this market failure.<sup>32</sup>

Indeed, starting in 2006, many IXC's were forced to adopt a consumer-friendly model similar to free conferencing, that is, participant-paid conferencing. Though many still charge the host per minute, per caller, these new offers are significantly cheaper than the traditional host-pay toll-free services. Over the intervening years, the price for these service offerings have continually declined from 25¢ per minute in March 2007 (AT&T)<sup>33</sup> to 8½¢ per minute, as of November 2009.

### **B. IXC's are Engaged in Unfair Competition**

Thus the IXC's' complaints, and their refusal to pay for access charges associated with free conference call services, is an example of unfair competition whereby IXC's leverage their nationwide market power and corporate strength to control, and perhaps eliminate, emerging and increasingly vibrant competition, much as the "Robber Barons" did in order to build and assert their monopoly power in the late 19th and early 20th centuries.

Another issue that appears to be underpinning the complaints of the IXC's is the fundamental shift of consumers away from traditional

32 For Example, in a business blog dated in 2006, Dan Kehrer's write-up of AT&T's new conferencing services (<http://www.business.com/directory/advice/technology/telephone-and-voip/remote-conferencing-saves-time,-money/>), included dial-in as well as web and video conferencing. On March 8, 2007 another blogger ([http://www.blogsharp.com/news\\_2054.html](http://www.blogsharp.com/news_2054.html)) reports on conferencing services by AT&T describing "caller paid dial-in."

33 "AT&T Conference Calls - More Than Just A Call," [http://www.blogsharp.com/news\\_2054.html](http://www.blogsharp.com/news_2054.html), 2007-03-08, (last accessed Nov. 1, 2009).

landlines to wireless and VoIP services. According to analysis by Cable and Satellite:

While wireline voice continues to lose customers to wireless, the loss was slightly less this quarter. The telcos saw a 7% decline in y/y losses as fewer people moved given difficulties in the housing market (also partially caused by a relatively easy comp from 2Q08). Cable saw an accelerated slowdown in phone additions for the 5th consecutive quarter.<sup>34</sup>

The shifting preferences of consumers raises three further issues that must be explored to fully understand the economic impact of free conference calling services. First, what is the purpose of the FCC's policy that allows rural CLECs to charge more for access services than urban ILECs? Second, what has been the effect of the implementation of these rules? Finally, what is the effect on the LECs, the IXC's, and consumers, particularly rural telecommunications consumers? These issues will be explored in detail.

## **C. FCC Regulations and Statements – IXCs use “TRAFFIC PUMPING” in Order to Mislead Legislators**

Rules relating to Access Charges collected by LECs are enumerated in the FCC's *Seventh Report and Order and Further Notice of Proposed Rulemaking*, adopted on April 26, 2001. In that document, the FCC clearly and unequivocally concludes that LECs that serve exclusively rural areas are entitled to tariff access charges at rates generally exceeding those of ILECs. In reaching that decision, the FCC articulates several reasons for this rural LEC exemption:

1. "... to encourage the deployment to rural areas of the infrastructure necessary to support advanced telecommunications services and of the services themselves."<sup>35</sup>
2. "... [rural CLECs] experience much higher costs, particularly loop costs, when serving a rural area with a diffuse customer base ..."<sup>36</sup>
3. "... the exemption we adopt today is not properly viewed as an implicit subsidy of rural CLEC operations. Instead it merely

<sup>34</sup> Cable & Satellite, Telecom Services, 08/13/2009

<sup>35</sup> In the Matter of Access Charge Reform, Reform of Access Charges Imposed by Competitive Local Exchange Carriers, CC Docket No. 96-262, Seventh Report and Order and Further Notice of Proposed Rulemaking, 16 FCC Rcd 9923 (2001), ¶ 65.

<sup>36</sup> Ibid, ¶ 66.

deprives IXC's of the implicit subsidy for access to certain rural customers that has arisen from the fact that non-rural ILECs average their access rates across their state-wide study areas.”<sup>37</sup>

As a result of the *Seventh Report and Order*, rural CLECs must follow one of two pricing rules: (1) if the CLEC competes with a non-rural ILEC, then it may tariff at the highest NECA rate.<sup>38</sup> (2) If the CLEC competes with a rural ILEC, then its tariffed rate is limited to the maximum of the competing rural ILEC (which may also be the highest NECA rate).<sup>39</sup>

The IXC's' complaints wrongly allege that free conference calling services violate the FCC's intent in setting rural access charges. Their arguments either fail to address the actual intent of the FCC in their entirety, or fail to analyze the FCC's intent in light of current market realities and the positive impact that conference calling services can have on other aspects of the rural CLECs' business operations.

Since the FCC was specific in its intent when making the rural exemption, failing to address all of the factors enumerated by the FCC, while focusing exclusively on only one variable, reveals little about whether a specific rural LEC is or is not violating the spirit of the FCC's policy and its intent. For example, rural ILECs often have outdated switches. The ILECs involved with free conferencing services purchased soft switches capable of handing off VoIP traffic. Furthermore, AT&T has submitted that the FCC should eliminate circuit switches entirely in favor of a VoIP PSTN. This will only put more pressure on the rural LECs, especially ILECs. Without revenue sources to pay for the new switches, how can the rural LECs continue to provide universal service?

#### **D. The Economic Impact of the IXC's' Refusal to Pay for Access Services**

In a variety of complaints before the FCC, rural CLECs and free conferencing service providers have alleged that large IXC's, with dominant market power (e.g., AT&T, Verizon, Qwest, and Sprint) are committing various anti-competitive practices against small, non-dominant LECs and related service providers.<sup>40</sup> These practices include, but are not limited to, not paying for access charges, routing calls through low quality or exhausted lines, or outright call blocking. At the same time, the relative

<sup>37</sup> Ibid, ¶ 66

<sup>38</sup> Ibid, ¶ 73.

<sup>39</sup> Ibid, ¶ 79.



size and financial strength of large IXC's, such as AT&T, Verizon, and Qwest, provide an enormous advantage over the small firms.

To illustrate, AT&T is worth approximately \$152 billion, which is more than half of the Standard & Poor's market capitalization for the entire Telecommunications Sector. Furthermore, they have increased their dividend each year since 2004, and continued that trend by raising it again in January of 2010. Small LECs, on the other hand, are worth less than 1% of AT&T's value. Further, rural LECs, like IXC's, are experiencing shifting consumer demands and thus are expected by UBS analysts to experience continued revenue declines.<sup>41</sup>

To continue to provide a sustained or improved quality of service to rural consumers, rural CLECs must diversify their service offerings and revenue streams. Many are beginning to offer wireless service, while others are providing facilities to conference call providers. Regardless of their business strategies, the business reality remains the same: rural CLECs are in increasing jeopardy as consumer preferences shift toward more modern services with the concomitant higher costs. Consequently, the FCC's goal of ubiquitous access services is similarly jeopardized when rural CLECs are the victims of unfair competitive practices.

Similarly, free conferencing companies are also significantly smaller than any of the IXC's, serving a small percentage of the total conference call market. Accordingly, the IXC's' practice of withholding access payments, thereby forcing LECs and conference call providers to expend considerable sums on litigation expenses, has a proportionally greater negative effect on these much smaller competitors of the dominant IXC's. Stated differently, a small, start up conference call provider places far greater value on \$100,000 than does an AT&T, a Qwest, a Verizon, or a Sprint.

40 Free Conferencing Corporation, ZipDX, Hypercube, Tekstar Communications, Northern Valley Communications, Sancom, Global Conference Partners, Futurephone.com, FeatureGroup IP, Great Lakes Communication Corp, Baraga Telephone Company, All American Telephone Co, e-Pinnacle Communications, ChaseCom, Omnitel Communications, M/C Venture Partners, Columbia Capital, Citynet, LLC, Granite Telecommunications, Inc., PAETEC, RCN Telecom Services, Inc., U.S. TelePacific Corp., MetroPCS Communications, Windstream Communications, DISH Network, DeltaCom, Level 3 Communications, COMPTel and others have current comments under docket 07-135 at the FCC.

41 Levi, Hodulik, Friedman and Albanese, "The Rural Telecom Monitor," p. 4.



## **E. Consumers Ultimately Pay the Price for Abuse of Market Power**

Moreover, as rural CLECs and conference call providers are harmed by the refusal of IXC's to pay access charges (notably, IXC's generally refuse to pay for both traditional call traffic and conference call related traffic), so too are consumers. Consumers will ultimately be the biggest losers, as the availability of innovative services is diminished for rural consumers and as competitive conference call service providers are choked off by the IXC's. In the end, consumers will experience higher prices and less choice, as the dominant firms in this oligopolistic market push pricing to suit their urban and high-density markets.

As discussed in other parts of this report, countless entrepreneurs, nonprofit organizations, religious institutions and governmental agencies have come to rely upon free conference calling services to collaborate with colleagues and do their daily work. These organizations, many of which have been forced to trim budgets and layoff staff members in response to the nation's economic downturn, will be forced to spend considerable sums on conference calling services if the IXC's are successful in stamping out competition. Nonprofit organizations on the frontlines of addressing the issues of poverty will be most directly impacted as they currently face increasing demand for services and decreasing resources with which to do their work.

## VI.

## Conclusions & Findings

An exhaustive study of available financial data, economic literature, and a keen understanding of the FCC's policy decisions, the authors of this report make the following conclusions and findings:

1. Conference calling services are currently provided by an array of entities ranging from the very large, (e.g., AT&T, Verizon, Qwest, Sprint, et al.), to the very small, (e.g., rural telephone companies and small competitive local exchange carriers).
2. Broadly speaking, there are two major types of conference calling: (A) Host-paid conference calling where the calling-in party pays nothing because the host pays all of the telecommunications expenses. Host conference calling arrangements were developed, and are still dominated by, the giants of the industry. (B) Free conferencing services where the conference attendee pays for the long-distance call. These conference calling arrangements are generally used by charities, small and large businesses, and political organizations, where the calls are generally terminated in a rural area.
3. When the dominant ILECs/IXCs complain to the FCC about "traffic pumping," "access stimulation," and refuse to pay terminating access charges, there is a hidden motive and agenda on their part, namely to frustrate and weaken the competitive positions of the small, non-dominant companies that offer conferencing services that compete with the dominant companies.
4. Despite claims to the contrary, the dominant IXCs are not confronting either a loss of business opportunities or profit as a result of the free conferencing competition. If they are suffering at all, it stems from their unlimited long-distance pricing models, which they are free to modify.

5. Conference calling competition introduced and promoted by the free conferencing companies has resulted in lower prices for all conferencing services. As a result, all customers of these services have benefitted, along with the companies that provide them.
6. Free conference calling services have expanded the market for unlimited long-distance plans.
7. The average revenue per minute and rate of return for the IXC's long-distance services have been increasing, not decreasing.
8. The evidence supports a conclusion that unlimited long-distance plans are, on average, profitable for the IXCs. Thus, it can be concluded that free conference calling services have, on average, resulted in increased profits for the IXCs.
9. FCC regulations and statements have consistently and categorically concluded that the policy goal for rural America should encourage the deployment of the infrastructure necessary to support advanced telecommunications services. In order to support that laudable and widely supported goal, the access charges for originating and terminating long-distance traffic in rural areas can be higher than the nationwide average. Referred to as "the rural exemption," this policy is designed to overcome the technological and capital costs of providing advanced services in rural America – services that if they were withheld would result in severe economic and employment suffering.
10. If the FCC eliminates the rural exemption or places regulatory constraints that result in tariffs that are simply too low, the action would have a negative impact on future competition and product development, thus eviscerating the FCC's policy underlying the rural exemption while impeding the provision of available and affordable broadband services.
11. The dominant IXCs are assiduously divesting themselves of their own rural ILECs, adding further evidence that these major, profitable companies are no longer interested in serving rural American markets.

12. Some rural communities are being so poorly served by incumbent telephone service providers that they are forming their own CLECs because they cannot get service from existing IXC/ILECs. Perhaps the least served communities in the nation are those on Native American Reservations. In fact, a number of them have formed CLECs and offer up-to-date telecommunications-information services at affordable rates. This trend is one that should be encouraged by the FCC.

## VII.

## EXHIBITS

### A.

### EXHIBIT A - Charges Due to Different Conference Arrangements

	IXC Toll-Free Host Paid Conference	ILEC or CLEC Owned Conference	Pay-Your-Way "Free" Conference
<b>Revenue to Conference Provider</b>	IXC is conference provider; receives revenue from per minute/per caller conference charges	ILEC/CLEC is conference provider; receives revenue from per minute/per caller conference charges	Independent conference provider receives marketing fee for ILEC or CLEC that provides local exchange service
<b>Revenue to IXC (or other call carrier)</b>	Host pays for participants to dial an 1-8XX number	Long-distance revenue; varies by customer plan	Long-distance revenue; varies by customer plan
<b>Revenue to Host LEC</b>	Same entity as Conference Service Provider and IXC	Unaffiliated IXCs pay access charges (per minute/per caller)	All IXCs pay access charges (per minute/per caller)
<b>Cost to Conference Provider</b>	Cost of software, bridges, and customer service	Cost of software, bridges, and customer service	Cost of software, bridges, and customer service
<b>Cost to IXC</b>	Cost of offering toll-free service; low marginal cost	Cost of providing long-distance service; low marginal cost	Cost of providing long-distance service; low marginal cost
<b>Cost to Host LEC</b>	Cost of switching; Low marginal cost	Cost of switching; Low marginal cost	Cost of switching; Low marginal cost
<b>Cost to Consumer</b>	Host pays all; other participants free	All participants pay long-distance charges	All participants pay long-distance charges

B. EXHIBIT B – AT&T Retail Statement showing high long-distance rates

## Your AT&T Statement

December 30 - January 29, 2010



#BWNJCJFM

[REDACTED] C

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Customer ID: [REDACTED]

Page 1 of 3

Customer Service: 1 800 222-0300

Text Phone (TTY): 1 800 855-2880

Internet Address: [www.att.com](http://www.att.com)

### Extra! Extra!

Need to pay your bill quickly? Dial 1.800.288.2747 and use AT&T's automated system to make your life easier!

### Benefit news

Sign up for AT&T Online Billing and you won't get another paper bill! To sign up just visit [www.att.com/online](http://www.att.com/online)

#### Why more customers are choosing online billing!

Simply visit [www.customerservice.att.com](http://www.customerservice.att.com) to manage or set up your online account. An online account puts you in charge 24x7! Just log in to check your order status, view, print and pay your bill online, look up a number you don't recognize on your bill, sort your calls and more. And if you sign up for Automatic Bill Payment, you can forget about late payments and the cost of stamps!

### Your savings and benefits

#### Never Mail Another Check to Pay Your AT&T Bill.

For the ultimate convenience, enroll in AT&T Automatic Bill Payment (ABP) and have your future payments automatically deducted from your checking account. To enroll, check the box and sign on the line on the back of the remittance coupon, and return with your payment. Or sign up for online billing to review and pay your bill each month by logging onto your AT&T Online Billing account at [www.att.com/remitdoc](http://www.att.com/remitdoc)



### Extra! Extra!

#### Need to pay your bill quickly?

By using AT&T's free automated system, you can make your bill paying easier! Just dial 1.800.288.2747 and pay your bill today!

Continues on back

Customer Service: 1 800 222-0300  
Text Phone (TTY): 1 800 855-2880  
Internet Address: www.att.com

Dec 30 - Jan 29, 2010  
Customer ID: [REDACTED]  
Page 2 of 3

#### Hands-free calls with AT&T TL7600 cordless headset.

Experience hands-free conversations with unsurpassed range and superior sound clarity using the AT&T TL7600 cordless headset. Add this headset to the AT&T SL, CL and TL series cordless phones for a lightweight and comfortable alternative to handsets. The TL7600 can be worn over the ear, over the head or behind the neck. Order the TL7600 for \$99.95 at [www.telephones.att.com](http://www.telephones.att.com) and enjoy free shipping on this product until February 28th, 2010 by using promotional code: 77K34EOG.

#### Direct dialed calls

	Date	Number called	Where	Time	Code	Min	Amount
→ 9	Jan 14	605 477-2100	Ftthompson, SD	7:57pm	EH	153	45.14
						203	\$60.02

#### Key to Code column

D = day  
N = night  
E = evening  
H = direct



#### Benefit news

##### AT&T Online Billing Gives You More

Sign up for AT&T Online Billing and say good-bye to paper bills. You'll receive an online statement that you can view 24/7, in addition to enhanced features such as Call Sorting and your choice of convenient billing options, including Automatic Bill Pay. You can even print out any of your statements, whenever you like. Signing up is quick, easy, and totally free. Just visit [www.att.com/online](http://www.att.com/online) and free yourself from the hassle of paper bills.

#### Products and services

##### Your current products and services

Service type	Products	Comments
Long Distance	AT&T Value Rate Plan	

#### AT&T Value Rate Plan calls

Description	Amount
AT&T Value Rate Plan monthly fee Jan 29 - Feb 27, 2010	4.95
Direct dialed calls	60.02
<b>Total AT&amp;T Value Rate Plan calls</b>	<b>\$64.97</b>

#### Other charges and credits

Date	Description	Amount
12 Jan 29	Universal connectivity charge For an explanation of this charge, please call 1 800 532-2021 or visit <a href="http://www.consumer.att.com/connectivity-charge">http://www.consumer.att.com/connectivity-charge</a>	9.50
13 Jan 29	In-state connection fee For an explanation of this charge, please call 1 800 333-5256 or visit <a href="http://www.consumer.att.com/instate-connectionfee">http://www.consumer.att.com/instate-connectionfee</a>	1.75
14 Jan 29	Carrier cost recovery fee Recovers cost to provide long distance service including regulatory fees, programs and connection & account servicing. It is not a tax or charge required by the government. For more information, call 1 800 854-9940.	2.39
		<b>\$13.64</b>

#### Taxes and surcharges

Description	Amount
Local tax	.23
Intrastate Surcharge	.13
Interstate Gross Receipts + applicable UCC	2.66
State tax	.18
	<b>\$3.20</b>

4NNNNNY 16935.16935



## VIII.

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